LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6350 | **NOTE PREPARED:** Dec 2, 2006
BILL NUMBER: SB 240 | **BILL AMENDED:**

SUBJECT: Adult Education Tax Credit.

FIRST AUTHOR: Sen. Smith S | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: This bill establishes an adult education tax credit. It allows employers to receive a tax credit of up to $300 per employee and up to $5,000 per year for payment of an employee's expenses related to an adult education program.

Effective Date: January 1, 2008.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit for adult education expenses. The Department's current level of resources should be sufficient to implement this change.

Department of Workforce Development (DWD): The DWD would have to certify that an employer's adult education expenses for employees are eligible for the tax credit established by this bill. The DWD's current level of resources should be sufficient to carry out the certifications.

Explanation of State Revenues: *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities of employers who pay costs relating to adult education for employees. If employers annually pay adult education costs for about 1% of their employees, the revenue loss from credits could potentially total about $7.6 M annually. The revenue loss from the credit could begin in FY 2008 if taxpayers adjust their quarterly estimated payments.

Background: The bill establishes a nonrefundable tax credit for employers that pay eligible adult education costs of employees during the taxable year. The credit is equal to 25% of the eligible adult education expenses paid by the employer up to a maximum of $300 per employee and $5,000 per employer in a taxable year. Eligible adult education expenses for an education program that: (1) helps an employee become literate; (2) helps an employee obtain a GED diploma; (3) teaches an employee English as a second language; (4) provides citizenship training for an employee who is an immigrant; or (5) provides vocational training for an employee. The tax credit may be claimed by individuals, corporations, and pass through entities. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity. The credit is not refundable. A taxpayer may carry over excess tax credits for up to five taxable years, but excess tax credits may not be carried back.

The fiscal impact would depend on the number of employers that choose to pay for eligible adult education expenses and are certified for the credit by the Department of Workforce Development. There are approximately 2.5 million people employed by private companies in Indiana. About 17.9% of people residing in Indiana do not have a high school diploma, and about 6.4% have a language other than English spoken at home. Assuming most non-English speaking employees also don't have a diploma, if employers pay adult education expenses described in (1) to (4) above for 1% of the employees who don't have a diploma or are non-English speaking, and employers pay vocational education training for 1% of the remaining employees, credits could be claimed for about 25,400 employees each year. (This assumes that most non-English speaking employees also don't have a diploma.) Assuming a $300 credit per employee, the credits claimed per year could total about $7.6 M.

Since the bill is effective beginning in tax year 2008, the fiscal impact could potentially begin in FY 2008 if qualifying taxpayers adjust their quarterly estimated tax payments. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development; Department of State Revenue.

Local Agencies Affected:

Information Sources: 2000 census information, August 2006 *Indiana Employment Review*.

Fiscal Analyst: Chuck Mayfield, 317-232-4825, Jim Landers, 317-232-9869.